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No. 82 -

IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1982

CARLTON M. DiCARLO,
a citizen of New Jersey

Petitioner

v.

A & W PRODUCTS CO., INC.
a New York Corporation, and
GEORG AUGUSTIN

Respondents

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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QUESTIONS PRESENTED

1. Is there a rational basis for the substantial and material difference between the standard of contract interpretation used by the Court of Appeals for the Third Circuit in its interpretation of contracts for the exclusive licensing of United States patents, and the standards of interpretation used by that Court for other types of contracts, not involving the exclusive licensing of patent rights.

2. Did the Court of Appeals for the Third Circuit decide correctly in this case that the decision of the United States Supreme Court in Waterman v MacKenzie, 138 U.S. 252 (1891) required the United States District Court and Circuit Court of Appeal to apply standards of contract interpretation to contracts for the exclusive licensing of patents which

are substantially and materially different from the standards applied by those Courts in their interpretation of other types of contracts, not involving patents.

3. Are petitioner DiCarlo and all other United States inventors who license their inventions exclusively for royalties being denied their right to due process by the action in this case of the United States District Court for the District of New Jersey and the United States Court of Appeals for the Third Circuit in holding that contracts for the exclusive licensing of patents must be construed, under Waterman v MacKenzie (138 U.S. 252), as assignments of the entire right, title, and interest in and to the patents involved and then, on the basis of such holding, issuing an opinion and a judgement which have the effect of deleting from said contracts provisions intentionally

included therein by agreement of the parties to insure that licensor would receive full royalties in return for the exclusive license granted to the licensee.

LIST OF PARTIES INVOLVED

Pursuant to the Rules of this Court the following is a list of the parties to the proceedings in the Court whose judgement is sought to be reviewed:

Carlton M. DiCarlo

A & W Products Co., Inc., a corporation of New York

Georg Augustin

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Other Authority:

Patent Assignments, third
edition, by Ridsdale Ellis,
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No. 82 -

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A & W PRODUCTS CO., INC.,
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Respondents

PETITION FOR A WRIT OF CERTIORARI

TO THE UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

OPINION BELOW

The United States Court of Appeals for the Third Circuit issued a JUDGEMENT

ORDER, entered May 17, 1983, affirming the OPINION and JUDGEMENT of the United States District Court for the District of New Jersey respectively filed July 15, 1982, and August 2, 1982. A copy of the JUDGEMENT ORDER of the Court of Appeals is attached as Appendix A. A copy of the OPINION of the District Court is attached as Appendix C. A copy of the JUDGEMENT of the District Court is attached as Appendix D. The Notice of Appeal to the Third Circuit Court of Appeals was filed August 23, 1982, a copy attached as Appendix G.

A petition for rehearing, filed in the Court of Appeals on May 27, 1983, was denied on June 9, 1983. A copy of the DENIAL is attached as Appendix B.

Petitioner requests review of the decision of the United States Court of Appeals for the Third Circuit (Judgement Order entered May 17, 1983) and of the

OPINION and JUDGEMENT of the District Court which said Judgement Order affirmed.

JURISDICTION

Jurisdiction of this Court is invoked pursuant to 28 U.S.C. 1254 (1), to review the Judgement of the United States Court of Appeals dated May 17, 1983 and entered that same day.

A petition for rehearing was timely filed on May 27, 1983 but was denied by the Court of Appeals by an Order entered June 9, 1983.

This petition for a writ of certiorari is being filed within 60 days of the date of the denial for rehearing.

STATEMENT OF THE CASE

On August 25, 1976 Petitioner DiCarlo granted to Respondent A & W Products Co., Inc. an exclusive license to make, use and sell a new product (a coupon cutter) DiCarlo had invented and developed to

the stage where prospective customers had expressed an interest in buying the product, if it was to be manufactured and offered for sale commercially.

The exclusive license contract, copy attached as Appendix E, was written in words of exclusive license, not words of assignment. It was a clear and unambiguous contract for the exclusive licensing of the DiCarlo product, whether or not the same subsequently was patented. The granting clause of the contract (paragraph No. 2) did not even mention patents or patent rights but was worded in terms of "THE INVENTION".

As matters eventually turned out, the single United States patent application subsequently filed on this new product was abandoned, and no U. S. patent ever issued on the product exclusively licensed by DiCarlo to A & W Products Co., Inc.

Therefore, insofar as third parties in the United States are concerned, DiCarlo never had the right to exclude others from making, using or selling the product in the United States, nor did A & W ever acquire or receive from DiCarlo any such right to exclude others from such manufacture, use, or sale. The product, in legal effect, was dedicated to the public as of the date it was first sold by A & W under the August 1976 license contract. No patent monopoly covering said product in the United States ever came into existence.

The August 1976 exclusive license contract provided specifically for the filing of a United States patent application covering the licensed DiCarlo product, with prosecution of said application to be under the exclusive control of A & W. This was done but, as stated above, said application was abandoned and

no patent issued.

In foreign countries the contract provided (see paragraph 5(a) of Appendix E) that in any country where A & W elected not to file a patent application on the DiCarlo invention, then DiCarlo was to have the right to file the patent application, at his own expense. This was an important and material provision of the contract because DiCarlo was to be paid for his grant of the exclusive license by royalties to be paid to him by A & W at the rate of ten percent (10%) of the Net Sales Price of all products "sold under claims of pending or issued patents relating to THE INVENTION in the country or countries where said patent or patents are applied for or issue." (see paragraph 3(b) of Appendix E).

Under these provisions of paragraph 5(a), A & W did in fact file patent appli-

cations in two foreign countries (Japan and Taiwan) but A & W, notwithstanding several oral and written requests from DiCarlo, refused to inform DiCarlo of the foreign countries where A & W elected NOT to file patent applications, thereby preventing DiCarlo from taking advantage of his rights to file under paragraph 5(a) in those countries (all foreign countries except Japan and Taiwan) where A & W did not file.

The reason for A & W's refusal is now clear, from discovery proceedings prior to trial. A & W, after deciding to file patent applications in only two countries, decided to grant to Georg Augustin individually (not a party to the August 1976 contract) the right to obtain patents in his name on the DiCarlo invention in some major foreign countries, including Great Britain and West Germany. They knew

DiCarlo would refuse to sign the papers necessary to such foreign filings by Georg Augustin, namely an assignment of the entire right, title, and interest in and to the invention including foreign priority rights in the countries involved. They knew this because under the August 1976 exclusive license contract DiCarlo would receive royalties only under those foreign patent applications filed by A & W or by DiCarlo himself (under the provisions of paragraph 5(a) and not from some third party like Georg Augustin having no obligations to DiCarlo under the exclusive license contract. Therefore A & W, working secretly in collaboration with Georg Augustin, decided not to inform DiCarlo of what it was they wanted to do. Instead they decided to try to obtain the necessary assignment from DiCarlo by misrepresentation and deceit.

Their attempt was successful. By representing the assignment to be merely a necessary part of the U. S. Patent application, A & W obtained DiCarlo's signature on a full and complete assignment, (copy attached as Appendix F, dated January 27, 1977) including foreign priority rights. Then within a matter of a day or two, without informing Di Carlo, A & W secretly reassigned the entire rights to the DiCarlo invention to Georg Augustin personally, in those foreign countries where A & W and Georg Augustin had privately agreed in advance that Georg Augustin would take over the patent rights to DiCarlo's new product.

The District Court did not, in its OPINION filed July 15, 1982, deny the above stated facts, proved by the evidence admitted at the trial, but instead concluded, as a CONCLUSION OF LAW, that:

A. Because the August 1976 contract (Appendix E) granted to A & W the exclusive right to make, use and sell the DiCarlo invention, the said contract must be construed as a complete assignment of DiCarlo's entire right, title and interest in and to the DiCarlo invention. The District Court cited the U. S. Supreme Court decision in Waterman v MacKenzie 138 U.S.C. 252 (1891) as the law which required the District Court so to interpret the August 1976 contract;

B. The January 27, 1977 assignment (Appendix F) which DiCarlo asserted to have been procured through misrepresentation and fraud by A & W from DiCarlo, was therefore said by the District Court to be "co-extensive with" the August 1976 exclusive license contract. In other words, both docu-

ments were held by the District Court to be full and complete assignments of exactly the same scope.

C. Following this reasoning, the District Court held that whether or not the January assignment was procured by misrepresentation and fraud made no difference because it was merely confirmatory of the 1976 agreement. It followed, according to the District Court, that the subsequent assignment by A & W to Georg Augustin, could not have constituted a breach by A & W of its August 1976 contract with DiCarlo.

The OPINION of the District Court filed July 15, 1982, the Judgement entered by the District Court on the basis of said OPINION, and the judgement order of the Court of Appeals affirming said OPINION and said judgement are all based on the decision of the United States Supreme

Court in Waterman v MacKenzie 138 U.S. 252. This is so stated in the District Court's CONCLUSIONS OF LAW set forth in the District Court's OPINION filed July 15, 1982.

As will be seen from a study of said CONCLUSIONS OF LAW, the District Court decided, and the Court of Appeals affirmed, that even if A & W had obtained from DiCarlo the January 27, 1977 assignment (Appendix F) wrongfully through misrepresentation and fraud such action did not constitute a breach by A & W of the August 1976 contract because Waterman v MacKenzie required the August 1976 contract itself to be interpreted as an assignment of the entire right, title, and interest in and to the DiCarlo invention. Therefore, according to the District Court, the January 27, 1977 assignment, which assigned to A & W all foreign priority rights to the DiCarlo invention, was merely con-

firmatory of the August 1976 license agreement and must, under Waterman v MacKenzie, be construed as "co-extensive therewith".

This immediately, of course, raises the question of why did A & W need the January 1977 assignment in the first place? The District Court didn't answer this question.

Such a holding forced the Court to delete, in legal effect, the provisions of paragraph 5(a) of the August 1976 license, retaining for DiCarlo the right to file foreign patent applications (and to receive royalties thereon) in those foreign countries where A & W elected NOT to file foreign patent applications on the DiCarlo invention. DiCarlo's right to file was non-existent from the beginning according to the District Court's interpretation of the August 1976 contract.

Such holding also nullified, in the eyes of the Court, DiCarlo's contentions

that the actions of A & W and Georg Augustin, in wrongfully acquiring foreign patents on the DiCarlo invention in the name of Georg Augustin as the owner, not subject to royalty payments under the August 1976 contract, constituted a misappropriation of the foreign patent rights expressly retained by DiCarlo in the said August 1976 contract.

As required by the Rules, Petitioner hereby states that the basis for jurisdiction in the Court of first instance in this action was diversity of citizenship, under 28 U.S.C. 1332.

REASONS WHY THIS PETITION FOR A WRIT OF CERTIORARI SHOULD BE GRANTED

FIRST. There is a direct conflict between the decision of the Court of Appeals for the Third Circuit in this case and the decision of that Court in the 1980 case of Mellon Bank, N.A. v Aetna Business Credit, Inc., 619 F.2(d) 1001.

In its prior decision in the Mellon Bank, N.A. v Aetna Business Credit, Inc. case, the Court set forth precepts of interpretation that Courts should apply in construing clear and unambiguous contracts, as following

(i) - Commercial parties are free to contract as they desire;

(ii) - In construing a contract, a Court's paramount consideration is the intent of the parties;

(iii) - [A] Court will make no inference or give any construction to the terms of a written contract that may be in conflict with the clearly expressed language of the written agreement;

(iv) A Court is not authorized to construe a contract in such a way as to modify the plain meaning of its words, under the guise of interpretation;

(v) Where parties, without any fraud or mistake, have deliberately put their engagement in writing, the law declares the writing to be not only the best, but the only evidence of their agreement.

If the Court of Appeals had adhered to the above listed precepts as laid down in the Mellon Bank case, in interpreting the Appendix E contract and the Appendix F assignment in this case, the result would have been as follows:

A. The Appendix E contract would have been held to be a contract granting to A & W the exclusive right to make, use and sell the DiCarlo invention;

B. There was no transfer to A& W of title to the invention, or title to the patent rights thereto in the Appendix E contract. Instead, paragraph 5(a) provided that DiCarlo would sign the patent application papers, in all countries. With respect to infringement suits, paragraph 8 provided that DiCarlo would cooperate with A & W in their institution and prosecution;

C. The rights expressed in the contract in paragraphs 3(b) and 5(a) for DiCarlo to receive royalties under pending patent applications or issued patents in payment for the exclusive license, and the right of DiCarlo to file foreign patent applications on his invention in any country where A & W elected NOT to file a patent application covering the invention, were expressly retained by DiCarlo. These were substantial and material rights, going directly to the amount of money DiCarlo would receive in return for his grant of an exlcusive license to A & W;

D. The Appendix F assignment, on the other hand, would have been held to be an assignment of the

entire right, title and interest in and to the DiCarlo invention and all patent rights thereto, not only in the United States but in all foreign countries as well, specifically including all priority rights to foreign patent applications. There were no provisions in this assignment which retained for DiCarlo any rights to all, either to execute patent applications, to receive royalties, or to file patent applications in those foreign countries where A & W elected NOT to file. The Appendix F assignment was complete and total and with it A & W no longer needed DiCarlo for any purpose, as proved by the secret actions A & W took after obtaining said assignment in re-assigning DiCarlo's foreign

patent rights to Georg Augustin.

Thus, it is clear that when the precepts of contract interpretation set forth in Mellon Bank v Aetna Business Credit are applied to the contract of Appendix E and the Assignment of Appendix F the two are found to be substantially and materially different in scope and legal effect. It was clearly NOT the intent of the parties to the contract of August 1976 (DiCarlo and A & W) to write that contract as an assignment to A & W of DiCarlo's entire right, title and interest in and to his invention and all patent rights thereto, in foreign countries as well as the United States. That is why A & W later found it needed the second instrument (the Assignment of Appendix F) to accomplish its wrongful objective of transferring to Georg Augustin, without any payment or

other consideration of any kind to DiCarlo, the power to file foreign patent applications on the DiCarlo invention in those countries where they had decided to have Georg Augustin own the patents.

But the District Court and the Court of Appeals decided not to apply the precepts of contract interpretation set forth in the Mellon Bank decision in their interpretation of the Appendix E contract, and the Appendix F assignment, at issue in this case. Instead, they decided that the United States Supreme Court, in its decision in Waterman v MacKenzie, 138 U.S. 252, had established a special and different rule of contract interpretation that must be followed by the lower Courts in construing that class of contracts involving the exclusive licensing of United States patents.

Such special rule, set forth in dicta in the Waterman v MacKenzie decision, was said by the District Court in its conclusions of Law filed July 15, 1982 (affirmed by the Court of Appeals) to be as follows:

> "Whether a transfer of a particular right or interest under a patent is an assignment or a license does not depend on the name by which it calls itself, but upon the legal effect of it provisions...[A] grant to make, use and vend a machine within a certain district is an assignment..."

If the District Court and the Court of Appeals in the present case had stopped right there, and contented themselves with merely renaming the Appendix E contract to "call it" an assignment, perhaps no harm would have been done by such application of the Waterman v MacKenzie dicta to the present case.

But they didn't stop there. They went further. They reasoned that if the con-

tract of Appendix E was to be renamed as a full assignment, then they also must change its expressly stated terms and conditions to those that would be compatible with the terms and conditions of a full assignment. From there it was easy to make the jump to their final conclusion, namely;

(i) the grant to A & W by DiCarlo in the Appendix E contract of the exclusive right to make, use and sell the DiCarlo invention, even though no United States patent ever issued on said invention, made that contract in legal effect an assignment;

(ii) because it had to be considered a full assignment, its terms and conditions had to be changed, by the Court, to be those compatible with an assignment of the entire right, title and interest;

(iii) therefore the contract of Appendix E became, by interpretation of the Court under the doctrine of Waterman v MacKenzie, an "assignment", of the same scope as the assignment of Appendix F. On the basis of this reasoning the two lower courts held the Appendix F assignment to be "co-extensive with the previous agreement", i.e. the contract of Appendix E.

(iv) the court's ultimate conclusion, on the basis of its reasoning as outlined above, was that DiCarlo's allegations to the effect that the defendants A & W and Georg Augustin wrongfully procured an assignment (Appendix F) in breach of the August 1976 Agreement and by fraudulent means, was inconsistent with the finding that the agreement (the contract of August 1976) consti-

tuted an assignment. They held that any subsequent formal assignment (the Appendix F assignment) "would have to have been co-extensive with the previous agreement and couldn't logically have breached it".

Thus, there is a clear conflict between the decision of the Court of Appeals in Mellon Bank v Aetna Business Credit, supra, and the decision of the Court of Appeals in this case. Further, because the Court of Appeals in its decision in this case relied on Waterman v MacKenzie, supra, as the legal basis of its decision, there is a clear conflict between the said Mellon Bank v Aetna Business Credit decision and the Waterman v MacKenzie decision.

SECOND. There is no rational basis for applying substantially and materially different precepts of contract interpre-

tation to contracts for the exclusive licensing of United States patents as compared to other contracts which do not involve such exclusive licensing.

Inventions and patents are forms of property, frequently referred to as "intellectual property".

Inventions have the characteristic of being dedicated to the public if published or sold without being patented, and patents are characterized as legal monopolies for a limited period of time. Contrary to the general understanding that patents confer "exclusive rights", they in fact grant to the patentee only the right "to exclude others" from making, using, or selling the patented invention.

These distinctions between inventions and patents and other forms of property are immaterial to the interpretation by the Courts of contracts for the licensing

or assignment of inventions and patents. Inventions and patents are just another form of property insofar as the legal interpretation of their contract is concerned. The precepts for interpreting exclusive license contracts should be the same as for other types of contracts.

THIRD. This case involves special and important reasons why it should be reviewed on writ of certiorari. Not only does it present a conflict between two Circuit Court of Appeals decisions, and between a Circuit Court of Appeals decision and a Supreme Court decision, as discussed above, but the final decision in this case will be of great importance to a large class of United States citizens, namely all United States inventors who license their inventions exclusively on a royalty basis.

All such inventors will be affected by the final result in this case, as to the true meaning of Waterman v MacKenzie, 138 U.S. 252.

FOURTH. The District Court and the Court of Appeals in this case misapprehended the holding of the Supreme Court in Waterman v. MacKenzie. The Writ requested by this Petition should be issued in order that the Supreme Court may correct such misapprehension and avoid its repetition in the future.

A leading treatise in the field of patent assignments, "Patent Assignments" by Ridsdale Ellis, Third Edition, Copyright 1955 by Baker, Voorhis & Co., Inc. contains an entire Chapter, Chapter 6, on this subject:

> "Validity of Doctrine That All Full Exclusive Licenses Are In Fact Assignments is Doubtful."

In that Chapter Author Ellis points out that the holding in Waterman v MacKenzie, that a full exclusive license to make, sell and use is an assignment and not a license, was only dicta so far as the facts in that case were concerned.

Be that as it may, nowhere in Waterman v MacKenzie is there any holding that a Court has the right to change anything in an exclusive license contract other than its name.

It may be, as stated in Waterman v MacKenzie, that "whether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions". But there is nothing in Waterman that authorizes a district court or a court of appeals to go further, and

actually to change the provisions agreed to by the parties to the contract as expressed by the plain meaning of its words.

Yet that is what the District Court and the Court of Appeals did in this case, and in so doing deprived DiCarlo of his right of action against A & W and Georg Augustin for their misrepresentation and fraud, and for their misappropriation of DiCarlo's right to file foreign patent applications on his invention (in all countries save the two where A & W filed applications) and to enjoy the royalties that would have accrued to DiCarlo under said foreign patent applications.

The above discussion is in terms of a "patented" machine or product, because that is what the Supreme Court was dealing with in Waterman v MacKenzie. But in the present case the invention was NOT patented

in the United States and there never existed either in DiCarlo or in A & W any right to exclude others from making, using or selling the product incorporating the DiCarlo invention. A & W did file a U. S. application executed by DiCarlo, but they abandoned said application and no patent ever issued.

Nor did the August 1976 exclusive license contract grant A & W rights under a patented invention. The granting clause of that contract, paragraph 2 of Appendix E, was couched in terms of "THE INVENTION", and no United States patent ever issued on the invention.

In view of this difference between the exclusive license to make, use and sell an "invention", in the present case, and the reference in Waterman v MacKenzie to the "transfer of a particular right or interest

under a patent" (referring to a United States patent), it is questionable if the Court of Appeals view that Waterman v MacKenzie is controlling of the decision in this case is correct, regardless of the true scope of the decision in Waterman v MacKenzie.

CONCLUSIONS

For the foregoing reasons, it is respectfully urged that this Court issue a writ of certiorari to review the Judgement of the Third Circuit.

Respectfully submitted,

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DATED:

July 1, 1983

APPENDIX A

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 82-5508

CARLTON M. DiCARLO, a citizen of New Jersey,

Appellant

v.

A & W PRODUCTS CO., INC., a New York corporation, and GEORG AUGUSTIN

On Appeal from the United States District Court for the District of New Jersey
(C.A. No. 79-1201)

Submitted Under Third Circuit Rule 12(6)
May 12, 1983

Before: ADAMS and WEIS, Circuit Judges, and VanARTSDALEN, District Judge*

JUDGEMENT ORDER

After considering all contentions raised by appellant, it is

ADJUDGED AND ORDERED that the judgement

of the district court be and is hereby affirmed.

Costs taxed against appellant.

BY THE COURT,

s/ Arlin M. Adams
Circuit Judge

ATTEST:

s/ Sally Mrvos
Sally Mrvos, Clerk

DATED: May 17, 1983
and entered

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*Honorable Donald W. VanArtsdalen, United States District Court for the Eastern District of Pennsylvania, sitting by designation.

APPENDIX B

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 82-5508

CARLTON M. DiCARLO, a citizen of New Jersey,

Appellant

v.

A & W PRODUCTS CO., INC., a New York corporation, and GEORG AUGUSTIN

(C.A. No. 79-1201)

SUR PETITION FOR REHEARING

IN BANC

PRESENT: SEITZ, Chief Judge, ADAMS, HUNTER, WEIS, GARTH, HIGGINBOTHAM, SLOVITER, BECKER, Circuit Judges, and Van ARTSDALEN, District Judge*

The petition for rehearing filed by Appellant in the above-entitled case having been submitted to the judges who

participated in the decision of this Court and to all other available circuit judges in the circuit in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the Court in banc, the petition for rehearing is denied.

By the Court,

s/Arlin M. Adams
Circuit Judge

DATED: June 9 1983 and entered

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*As a panel rehearing only.

APPENDIX C

UNITED STATES DISTRICT COURT

District of New Jersey

Newark, N. J. 07101

Chambers of
LAWRENCE A. WHIPPLE
Senior Judge

O P I N I O N

ORIGINAL FILED
JULY 15, 1982

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Re: Carlton M. DiCarlo v. A & W Products Co., Inc. and Georg Augustin
Civil Action No. 79-1201

Gentlemen:

This case was tried before the Court without a jury. The Court submits herewith its findings of fact and conclusions of law pursuant to Rule 52 of the Federal Rules of Civil Procedure.

FINDINGS OF FACT

1. The plaintiff, Carlton M. DiCarlo, is an individual resident of New Jersey.

2. The defendant, A & W Products Co., Inc., is a New York Corporation with its principal offices in Port Jervis, New Jersey.

3. The defendant, Georg Augustin, is an individual resident of New York and an officer of A & W.

4. This Court has jurisdiction by virtue of the diversity of citizenship of the parties and an amount in controversy which exceeds $10,000. 28 U.S.C. 1332.

5. This action arises out of an agreement between A & W and DiCarlo entered into on August 25, 1976 (hereinafter the August 1976 agreement) relating to a small hand-held cutter useful for removing coupons from newspapers and magazines.

6. The terms of the agreement granted A & W an exclusive license to make, have made, use and sell the cutter and any improvements on the Cutter in DiCarlo's possession on the date of the execution of the agreement.

7. A & W agreed to pay DiCarlo an initial payment of $5,000 upon the execution of the agreement, as well as a royalty of 10% of the Net Sales Price of all products sold under claims of pending or issued patents relating to the cutter. There was also a royalty cut-off provision which took effect on May 25, 1978.

8. A & W required under the agreement to use "best efforts" to produce and market the cutter, and to use "best efforts" to obtain patent protection. A & W was also required to keep and maintain full and accurate records and make them available to DiCarlo or his accountant quarterly.

9. DiCarlo was bound under the agreement not to compete with A & W in manufacturing or selling this product. However, he was permitted under the agreement to file patent applications for the cutter in any country where A & W elected not to file.

10. In the event that A & W, in its discretion, chose to discontinue patent prosecution it was required to give prompt notice to DiCarlo who would become entitled to the right, title and interest in the patent application.

11. Finally, there was a termination clause which granted DiCarlo the right to terminate, in whole or in part, the terms of the agreement upon written notice. Upon termination all patent rights would be automatically assigned to DiCarlo.

12. In addition to executing the August 1976 agreement DiCarlo executed a formal assignment of the rights to the patent application and the cutter to A & W on January 27, 1977.

13. A & W paid royalties to DiCarlo until May 25, 1978, the date that the United States patent application covering the cutter was placed under Final Rejection in the United States Patent Office. This action was upheld by Judge Coolahan previously through a partial summary judgment which was part of this proceeding and is law of the case. May 20, 1980 opinion.

14. A & W had elected to exercise its option to discontinue prosecution of the DiCarlo United States' application and advised DiCarlo of this decision.

15. DiCarlo did not seek to exercise his right to take over prosecution of the application.

16. DiCarlo received all payments due him under his agreement with A & W. He received $8,000, which were all royalty payments due him for the cutter sales prior to May 25, 1978.

17. A & W used its "best efforts" to manufacture and sell the cutter and used "best efforts" to obtain patent protection despite the fact that no patent issued.

18. A & W did not breach the August 1976 agreement by assigning the cutter to Georg Augustin.

19. A & W did not breach any agreements between itself and DiCarlo by procuring a formal assignment from DiCarlo.

20. A & W did not engage in fraud by procuring a formal assignment with DiCarlo. 37 C.F.R. § 1.32, § 1.41, § 1.46.

21. A & W did not breach its obligation to keep and maintain accurate records of all transactions relating to the cutter and made them available for DiCarlo's inspection.

22. DiCarlo's partial termination of the August 1976 agreement was improper.

CONCLUSIONS OF LAW

This case is a contract case rather than a patent case. The August 1976 agreement between A & W and DiCarlo is a clear and unambiguous contract which binds the parties. The plaintiff contends that it is an "exclusive license" wherein DiCarlo retains substantial rights. The defendant contends that the agreement constituted an assignment of all right, title and interest to the cutter, regardless of its being

labeled "license" and that virtually the only rights retained by DiCarlo was the right to receive compensation in the form of royalties.

> There is support for the defendants' position.
>
> Whether a transfer of a particular right or interest under a patent is an assignment or a license does not depend on the name by which it calls itself, but upon the legal effect of its provisions . . . [A] grant of an exclusive right to make, use and vend a machine within a certain district is an assignment....

Waterman v. MacKenzie, 138 U.S. 252 (1981). The plaintiff argues that the retention of the right to file patent applications in the foreign countries where A & W elected not to file and the right to take over prosecution of patent applications that A & W discontinued are substantial rights that are inconsistent with an outright assignment. However, under the rule of Waterman v. MacKenzie, id., where the "licensee" holds that right to sue infringers and to be used in relation to the invention in its own name then the legal effort of the transfer is an assignment.

See also, Hook v. Hook & Ackerman, 187 F.2d 52, 57 (3d Cir. 1951) and Deller's Walker on Patents, (2d Ed.), § 343, p. 376.

Furthermore, neither the method of payment nor the termination clause will preclude the transaction from constituting an assignment. Bell Intercontinental Corporation v. U. S., 152 U.S.P.Q. 182 (1966 Ct. Cl.); Bunting v. McDonnel Aircraft Corp., 183 U.S.P.Q. 432 (Mo. App. 1974) and 185 U.S.P.Q. 698 (Mo. 1975); Deller's Walker on Patents, § 345, p. 382.

With this in mind we must review each of the plaintiff's allegations in order to determine their legal validity. Plaintiff DiCarlo alleges that the defentant wrongfully procured an assignment in breach of the August 1976 agreement and by fraudulent means. This theory is inconsistent with the finding that the agreement constituted an assignment. Any subsequent formal assignment would have to have been co-extensive with the previous agreement and couldn't logically have breached it.

Additionally, it could not have been procured by fraudulent means because the plaintiff did not even have the right to refuse to grant the formal assignment, Andreaggi v. Relis, 171 N.J. Super. 203 (Ch.Di. 1979).

Plaintiff DiCarlo has failed to show evidence of the breach of any obligations owed him by A & W and/or Augustin under the August 1976 agreement. He has failed to prove that A & W did not maintain full and accurate records. He has failed to prove failure to use best efforts to manufacture, market or maintain patent protection.

Finally, DiCarlo submits that A & W breached their agreement by failing to recognize DiCarlo's option to terminate the agreement and continuing to manufacture and sell the cutter. This Court, however, has not found any evidence of breach by A & W and finds that the plaintiff's termination and subsequent competition with A & W itself constituted a breach.

Following the same reasoning, because the August 1976 agreement constituted a full and complete assignment to the defendant A & W, any subsequent assignment to the defendant Georg Augustin did not constitute a breach of the agreement with DiCarlo.

DiCarlo urges us to follow the rule of Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979). Although the Aronson facts are quite similar to this case, the issues decided by the Supreme Court were not.

In Aronson, the plaintiff entered into a contract with the defendant whereby in exchange for a fixed royalty the defendant received an exclusive license to make and sell plaintiff's invention. A condition of the agreement provided that if no patent issued within five (5) years the royalty would decrease as long as the defendant continued to sell the invention.

The issue in Aronson was whether federal patent law pre-empted state

contract law concerning the enforceability of law is not displaced merely because a contract relates to intellectual property where such regulation is not inconsistent with federal law. The final outcome of Aronson was that the defendant was bound to its agreement to pay royalties notwithstanding the failure of a patent to issue, under state contract law. The Court simply enforced what the parties had agreed upon at arms' length. The Court did not hold that a party to a licensing agreement is bound to pay royalties as long as they continued to sell the article, as the plaintiff suggests.

This Court concludes that the plaintiff has not proved by a preponderance of the evidence any of his claims for relief against the defendants. This Court therefore finds for the defendants.

An order in conformance with this opinion shall be submitted by attorney for defendant within five (5) days.

Very truly yours,

s/Lawrence A. Whipple
Lawrence A. Whipple
U.S.D.J.

LAW:jap

APPENDIX D

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

CARLTON M. DiCARLO, :
Plaintiff, : Civil Action No.
v. : 79-1201 (LAW)
A & W PRODUCTS CO., INC., and GEORG AUGUSTIN, :
Defendants. : FILED Aug. 2, 1982 at 8:30 AM Allyn Z. Lite

JUDGEMENT

This action came on for trial before the Court, Honorable Lawrence A. Whipple, District Judge, presiding, and the evidence adduced by the parties having been heard, and the issues having been duly tried and the Court having made its findings of fact and conclusions of law, it is hereby

ORDERED, ADJUDGED AND DECREED that the Plaintiff Carlton M. DiCarlo take nothing, that the Action be dismissed on the merits,

and that Defendants, A & W Products Co., Inc. and Georg Augustin, recover of the Plaintiff, Carlton M. DiCarlo, their costs of this Action, and it is further

~~,ORDERED, ADJUDGED AND DECREED that Plaintiff Carlton M. DiCarlo, his executors, heirs and assigns, employees, attorneys, and all persons in active concert and participation with them, be and they are hereby permanently enjoined and restrained from in any manner manufacturing or selling, or causing others to manufacture or sell a Cutter intended for use in cutting a single sheet of paper, which Cutter consists of a handle having a flat edge with a blade protruding from the flat edge of the handle to an extent that when the Cutter is used in its normal and intended manner, the flat edge is placed against the piece of paper and the handle moved relative to the paper~~.

Dated this 2nd day of August, 1982
and entered

s/ Lawrence A. Whipple
United States District
Judge

APPENDIX E

AGREEMENT

Agreement effective as of August 25, 1976, by and between Carlton M. DiCarlo, residing at 3 Station Road, Madison, New Jersey, 07940 (hereinafter called "DICARLO") and A&W Products Co., Inc., a corporation of the State of New York having offices at Gardner Street, Port Jervis, New York (hereinafter called "A&W").

W I T N E S S E T H :

WHEREAS, DICARLO, is the owner of all right, title and interest in and to improvements relating to an improved hand-held paper cutters generally known as "KwiKut" (hereinafter called "THE INVENTION").

WHEREAS, DICARLO has the right and authority to grant the license herein granted; and

WHEREAS, A&W desires to acquire the license herein granted.

NOW, THEREFORE, in consideration of their mutual promises and covenants herein made, it is agreed as follows:

1. The parties in order to induce each other to enter into this Agreement respectively represent:

a) DICARLO warrants and represents that he is the sole owner and inventor of THE INVENTION, and was in the process of obtaining a patent on THE INVENTION through his attorney, Howard Popper residing at Berkely Heights, New Jersey.

b) DICARLO warrants and represents that he has granted no other license relating to THE INVENTION.

c) DICARLO has furnished to A&W and A&W has received from DICARLO illustrative

sketches, see Note Number One (Note No. 1 A,B,C,D,E,F,G,) diagrams, samples and assembled KwiKu devices and samples of different types of blades, all of which pertain to THE INVENTION, not before known to A&W.

d) Mr. Carl Augustin warrants and represents that he has the right on behalf of A&W to execute this Agreement.

e) A&W severally represents that they will use their best efforts to produce and market THE INVENTION as soon as reasonably possible from the effective date of this agreement.

2. DICARLO hereby grants an exclusive license to A&W to make, have made, use and sell THE INVENTION and any variations or improvements upon THE INVENTION in the possession of DICARLO at the date of execution of this Agreement anywhere in the world.

3. a) A&W agrees to pay to DICARLO an initial payment of five thousand dollars ($5,000.00) upon the execution of this Agreement. This initial payment shall also cover sample charges for samples of THE INVENTION heretofore supplied by DICARLO to A&W and such sample charges will be considered as paid in full.

b) In addition, A&W agrees to pay DICARLO a royalty of ten percent (10%) of the Net Sales Price of all products sold under claims of pending or issued patents relating to THE INVENTION in the country or countries where said patent or patents are applied for or issue, as the case may be. As to each pending or issued patent, payments will be made only for the life of that patent for sales of products made under claims of that pending or issued patent. Provided however, that payments under this sub-paragraph (b) will cease

four (4) years from the effective date of this Agreement if no United States Patent issues covering THE INVENTION or when a United States Patent Application covering THE INVENTION is under "Final Rejection" as that term is generally understood and no patent issues. Payments under this sub-paragraph (b) shall resume only if and when claims are granted in an issued United States Patent. Payments under claims of a pending patent application are only to be made as to such claims which are included in a patent application with good faith expectation that such claims are allowable by the applicable granting authority and would be valid, if granted, and are not merely included for the purpose of royalty payments hereunder.

c) The term "Net Sales Price" as used herein shall mean the gross selling price

by A&W less the usual trade discounts, less freight, less any taxes which might be included in the gross selling price, less allowances for goods returned and less adjustments for defective goods.

d) In the event that a product comes on the market and A&W can demonstrate to DICARLO that A&W is required to meet substantial competition provided by that product, in a substantial manner, including but not limited to reduction in the net selling price, trade discounts and/or increased expenditures for promotion and advertising, A&W shall be entitled to reduce the payments provided for in Paragraph 3(b) of this Agreement by at least twenty-five percent (25%) and up to but not more than fifty percent (50%), the percentage to be agreed upon by both parties during the time that such com-

petitive product continues to be marketed.

4. Upon the execution of this Agreement, DICARLO agrees to deliver, at no cost to A&W, all molds, representative samples, and drawings for all designs for THE INVENTION and any variations or improvements upon THE INVENTION in the possession of DICARLO on the effective date of this Agreement. If and when this Agreement is terminated, A&W will return to DICARLO, in good condition, the pilot mold consisting of two cavities. DICARLO further agrees that he will not make products which are competitive with products made by A&W under this Agreement nor will DICARLO authorize others to make products which are competitive with products made by A&W under this Agreement. A&W agrees upon execution of this Agreement to commence intensive and continuous development and

production of plastic molds and associated equipment to produce necessary components required for producing THE INVENTION.

5. a) Patent application or applications covering THE INVENTION are to be applied for in the United States and prosecution is to be under the exclusive control of A&W. A&W may apply for patents in any other country of the world, which in its sole discretion it deems suitable, and may use patent counsel of its own choice. A&W agrees to use its best efforts toward and to bear the expense of obtaining patent protection for THE INVENTION. DICARLO agrees to execute all necessary papers and cooperate in the filing and prosecution of all patent applications at no expense to A&W. DICARLO may, at his own expense, file patent applications covering THE INVENTION in any country

which A&W elects not to file a patent application covering THE INVENTION.

b) A&W, in its sole discretion, may discontinue prosecution of any pending patent application covering THE INVENTION. In the event that A&W decides to discontinue prosecution of any patent application, A&W shall give prompt notice to DICARLO who may take over prosecution of such patent application at his own expense if he desires. If DICARLO elects to take over prosecution of such patent application, DICARLO will reimburse A&W for all reasonable and necessary expenses incurred by A&W for filing and prosecution of such patent application, and DICARLO shall then be entitled to an assignment of all right, title and interest in and to such application.

6. A&W shall maintain full and accurate accounts and records of all transactions made under this Agreement. Such records shall be made available to DICARLO or his independent public accountant quarterly at his expense commencing on September 1, 1976.

7. Payments are to be made quarterly. A&W agrees that within thirty (30) days after the end of each quarterly period beginning with the first day of October, 1976, February, April and July, it will furnish DICARLO with a written statement specifying the number of products covered by this Agreement sold during the preceeding quarterly period and such statements shall be accompanied by the payment of the royalty shown thereby to be due DICARLO. Royalty payments provided for in this Agreement shall, when overdue, bear interest at the maximum legal rate then in

effect in the State of New York.

8. A&W shall have the right to sue for infringement of any patent which issues covering THE INVENTION. DICARLO agrees that he will cooperate in any and all ways necessary for the institution and prosecution of any suit for infringement.

9. DICARLO may terminate this Agreement upon sixty (60) days written notice to A&W if A&W shall fail to make the payments required under Paragragh 3.b) and 7, or make an assignment for the benefit of creditors, or be adjudicated a bankrupt, or have a receiver appointed for all or a major portion of its assets who shall not be discharged within forty (40) days from date of appointment. DICARLO may also terminate this Agreement upon (60) days written notice to A&W if A&W shall vote to terminate its business or to

liquidate or dissolve or dispose of its principal assets.

10. In the event that A&W shall fail to comply with the terms of this Agreement, and is notified by mail by DICARLO of such failure, A&W shall have sixty (60) days from the receipt of such notice to comply with the terms of this Agreement. In the event that A&W has not complied with the terms of this Agreement at the end of the sixty (60) day period, DICARLO shall have the option of terminating this Agreement in whole or in part. Termination in any manner shall in no way effect the rights of DICARLO to accrued royalties hereunder and/or any payments due. Upon termination of this Agreement by A&W for any reason, A&W agrees to assign all patent rights relating thereto back to DICARLO. Written notice hereunder shall be deemed to have

been given when delivered first class registered mail, prepaid, addressed as follows:

To A&W Products Co., Inc.
Gardner Street
Port Jervis
New York 12771

To DICARLO
Mr. Carlton M. Di Carlo
3 Station Road
Madison, NJ 07940

11. Unless sooner terminated, the terms of this Agreement shall be for the life of any patent granted covering THE INVENTION.

12. This Agreement shall be binding upon and inure to the benefit of successors and assigns of A&W and of the heirs and legal representatives of DICARLO.

s/ Carlton M. DiCarlo
Carlton M. Di Carlo

A&W Products Co., Inc.

By s/ Carl Augustin
Carl Augustin

APPENDIX F

A S S I G N M E N T

WHEREAS, Carlton M. DiCarlo, a citizen of the United States residing at 3 Station Road, Madison, New Jersey 07940 has invented certain new and useful improvements in a CUTTER TOOL for which he has executed an application for Letters Patent in the United States of America on January 27, 1977, and

WHEREAS, A & W Products Co., Inc., Gardner Street, Port Jervis, New York 12771, a corporation of the State of New York is desirous of acquiring the entire right, title and interest in and to said application, the invention described therein and each and every patent that can be issued on said application and on said invention in the United States of America, and in its colonies, territories and

dependencies and also in all countries foreign to the United States of America,

NOW THEREFORE, TO ALL WHOM IT MAY CONCERN, be it known that for and in consideration of one ($1.00) Dollar in hand paid, and other good valuable consideration, the receipt of which is hereby acknowledged, the aforesaid Carlton M. DiCarlo has sold, assigned and transferred, and by these presents do hereby sell, assign and transfer unto said A & W Products Co., Inc. the full and exclusive right, title and interest in and to the aforesaid application, the aforesaid invention, and each and every patent that may be issued upon the aforesaid invention, and application in the United States of America and its colonies, territories and dependencies, and also in each and every country froeign to the United States of

America, the same to be held and enjoyed by the assignee for its own use and behoof, and for the use and behoof of its successors, assigns or other legal representatives to the end of the term or terms for which said Letters Patent may be granted as fully and entirely as the same would have been held and enjoyed by it if this assignment had not been made.

AND I hereby authorize and request the Commissioner of Patents and Trademarks to issue any and all Letters Patent on said invention or resulting from said application directly to the aforesaid assignee.

I herewith authorize the aforesaid assignee and successors to apply for patent directly in its own name, upon the aforesaid invention and wherever the same is permitted by law, and I also assign, sell, transfer and set over unto said

assignee and its successors, all priority rights und r the aforesaid application.

I further covenant to execute all additional instruments and to do all things necessary for carrying out the puspose of this instrument, at the expense of assignee and its successors.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal this 27 day of January, 1977.

s/ Carlton M. DiCarlo

STATE OF NEW JERSEY)
COUNTY OF MORRIS)

On this 27 day of January, 1977, before me came Carlton M. DiCarlo to me known and known to me to be the indivdual described in, and who executed the foregoing instrument, and he acknowledged to me that he had executed the same.

s/ Bruce D. Ulrich
Notary Public

RECORDED
U.S.PATENT OFFICE

Feb. 10, 1977

APPENDIX G

NOTICE OF APPEAL

TO

U. S. DISTRICT COURT for the District of New Jersey, Newark, New Jersey

U.S. TAX COURT [ ]	CIRCUIT COURT DOCKET NO. _____
FULL CAPTION IN DISTRICT COURT AS FOLLOWS:	DISTRICT COURT DOCKET NO. CA 79-1201
CARLTON M. DiCARLO Plaintiff	DISTRICT COURT JUDGE Lawrence A. Whipple
vs	
A & W PRODUCTS CO., INC. and GEORG AUGUSTIN Defendants	

Notice is hereby given that Carlton M. DiCarlo, Plaintiff-Appellant appeals to the United States Court of Appeals for the Third Circuit from [X] Judgement and [X] Order respectively granting motion for partial summary judgement filed June 17, 1980 and dismissing action entered on the

docket on August 3, 1982.

DATED: August 20, 1982

FILED: August 23, 1982.

s/H. Hume Mathews
(Council for Appellant-Signature)
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(Name of Counsel-Typed)
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